Attachment 2

GSA's New Pricing Policy

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QUESTIONS:

1. **Why can't we buy down rent at mid-occupancy? What is the regulation/citation that states this cannot happen?**

   Refer to Chapter 6, Section 6.1, Agency Lump Sum Options (p.65) pricing desk guide. It states that the Office of Finance and the Office of General Counsel objected to PBS accepting lump sum payments to defray future year ordinary rent obligations since these constitute pre-payment of Rent. Most agencies are barred by fiscal regulation from using current year

2. **Should we be receiving invoices/cost estimates for all tenant improvement costs and building specific security costs?**

   No, however in Federal Buildings, someone in your agency (locally) should be a member of the building security committee. This way they are apprised of any building wide security changes such as increased/decreased service or new security measures being instituted in the building.

   As far as TI costs, it is not standard practice to provide invoices however the agency has every right to request copies from the realty specialist or project manager along with the OA.

3. **Can we get copies of appraisals? If not, why?**
   Refer to Chapter 4, Section 4.2 Continuing Occupancies, p 55, pricing desk guide. It states:

Release of Appraisal Information
PBS expects our customer agencies to recognize and accept third-party appraisals procured by PBS as the best and most expedient means of setting intra-governmental pricing for federally owned space. If a customer agency believes the appraised rental value is wrong and requests a review of an appraisal (prior to filing an appeal), PBS should agree to discuss the appraisal and, as appropriate, share information from the appraisal (including comparables). Confidential information such as the identity of tenants in the comparables may be redacted.

The burden of proof is on PBS to demonstrate that the fair annual Rent rate was correctly derived from the appraisal and the appraisal was properly conducted. It is not reasonable to expect that a customer agency accept every appraisal-generated Rent value without access to the appraisal or the comparables upon which

4. **Why are basic security costs changing periodically throughout the year? Should this be happening and why?**

   It depends. Has the building been remeasured by GSA? Has the amount of joint use changed in the building? Has your space assignment changed (NOAA initiated)? The rate per square foot for 2001 is $.13 per rentable square foot so the bottom-line dollar amount could change if any of these conditions were met.

5. **In many Federally owned assignments, our space is being remeasured and our rent bills are going up substantially. In some case, our rent as well as our square footage has doubled. When we call the realty specialist, they say that the bill went up because GSA remeasured the space. This is happening in assignments with and without OA's. Why is this happening? Also, we are getting no notification in advance. It just shows up on the rent bill one month. Is there a formal notification process for these types of changes?**

I copied the quite lengthy response directly from the Pricing Desk Guide. It has new language incorporated from the changes that took effect 2/12/01. It can be found in Chapter 2, Section 2.4.1, ANSI/BOMA Standard Impact, p24-25A

Implementation of the ANSI/BOMA Standard and Rent Billings

PBS cannot change the square footage for any existing assignment governed by an Occupancy Agreement without amending that agreement. Even where no OA is in place, PBS is not free to change the square footage figure for an existing assignment, without appropriate notice to the affected agency according the agency time to budget. PBS policy, for all changes in Rent (increases or decreases) as a consequence of space re-measurement, conversion to the ANSI/BOMA standard, or cleaning up our data, is:

1. The square footage figures in STAR should be changed as soon as the correct square footage is known and the billing impacts/adjustments are calculated. Customer agencies should then be provided with the opportunity to challenge the new billing data. The square footage and rental information in the client's OA should be updated and transmitted to the customer agency. Where no OA currently exists, regions can prepare an OA, or prepare a letter notifying the customer agency of the change. An agency cannot avoid the onset of the changes by not signing the OA, but PBS needs to provide the agency with an opportunity to identify any errors. (For instance, our records may indicate occupancy on floors two, three and seven, whereas the agency may point out that they vacated the seventh floor three months ago.)

The new square footage figures should be entered into STAR, so that RentEst (formerly BUDEST) will calculate the correct Rent for the first budget year in which the change in Rent can take effect. The RentEst baseline is typically taken on or about February 15, for the budget year that commences 18 months later. Where square footage changes occur after that date, regions should a) notify customers locally, and b) report them to the Revenue Division for transmittal to customer headquarters (for customer inclusion on OMB Exhibit 54). Notification of square footage changes must be received by the PBS Revenue Division not later that August 15 in order for them to be included in agency budgets for the fiscal year commencing 14 months later.

2. If the total rentable or usable square footage for a building does not change, or if the change is less than 2 percent, then the appraised rental rate for the building, expressed in rentable terms, is to be left untouched. If the total rentable or usable square footage in a building changes by more than 2 percent, then PBS should consult the appraisal upon which the rental rate was based, or the appraiser who prepared it, to see if the rental rate needs to be adjusted. This is necessary because, in some cases, appraisers modified their rentable square foot rate determinations, based upon the differential in loss factor between R/Us in GSA buildings and R/Us typical in the marketplace. Contact the appraiser if the appraisal document does not clearly indicate whether or not an adjustment was made on the basis of the rentable/usable ratio employed. The appraiser may determine that the rate needs to be adjusted in light of the new numbers for the rentable or usable area.

In the event of a rate change, enter it immediately in STAR. In some cases, the rate change or adjustment merely offsets the effect of a change in rentable square footage for the tenants. In these cases, since the overall Rent does not change, no single line billing adjustment is necessary. In the case, however, in which the customer agency's Rent does change, a single line billing adjustment is necessary to intercept the change until the budget year for which the change can be effective.

3. Changes in Rent resulting from remeasurement and square footage corrections, as well as changes in Rent resulting from R/U factor changes should be held in abeyance until the agency has sufficient time to budget. This is done through the use of a single line billing adjustment (described in paragraph 6 below) that neutralizes the effect of the change. The single line billing adjustment should be programmed to expire at the beginning of the fiscal year in which the change in Rent can take effect.

4. Remeasurement initiatives, or actual changes in the allocation of space between usable and common areas, may occasion R/U changes for individual floors or for the entire building. In those instances in which an R/U factor changes, but the tenant's usable area (and joint use area) is unchanged, the tenant's Rent should remain unaffected. The Rent should not change for such a tenant until the current OA expires, or, if there is no OA in place for the assignment, until the shell rate expires. This rule overrides the sufficient-time-to-budget policy of holding rent changes in abeyance only until the budget year for which GSA can give timely notice.

This rule intercepts, for the duration of the OA or until an OA is put into place (i.e., when the shell rate expires) changes to Rent which are entirely unrelated to the tenant's or to joint use space. This follows a comparable principle observed in our lease contracts: once tenant and landlord agree on the measurement of the demised area and the consequent rent, the rent remains unchanged for the lease term (excepting, of course, as specified in the contract.) Lessors to GSA are not able to come to us for rent increases whenever their building R/U factors change; lessors have to wait until a lease expires before attempting to collect, in the follow-on lease rate, for any changes in R/U. PBS policy aligns owned space with this principle. Thus, in the case of remeasurement or R/U factor changes, which do not alter tenant's usable area, or joint use area. The single line billing adjustment must be set to expire at the time the OA or the CBR shell rate expires.

5. Correction of billing errors and omissions can be immediate; that is, they need not wait until the next budget year for which GSA can provide notice. For instance, in the case of space assignments for which there was agreement (in an OA or otherwise) between PBS and the tenant agency as to the square footage, but PBS failed to enter the correct square footage, there is no need to wait until the next RentEst budget year to collect the correct rent. Billing can start immediately for blocks of space that have been occupied by an agency, but which have not been assigned to the agency by omission. Corrections should take effect retroactive to the date of the error, but no earlier than October 1 of the previous fiscal year.

6. The single line billing adjustment should be:
   Entered into STAR's "Misc. Billing/Adjustments" screen, coded as an adjustment for Incorrect Square Footage.
   The adjustment effective date should be when the square footage change will start to affect the agency bill.
   The end date for the adjustment should either be the beginning of the fiscal year for which the customer agency will have had time to budget for any change or, in the event of a change which does not alter the tenant's usable area or the joint use area, the expiration date of the OA or CBR shell rate.

When the one-time adjustment is used, then:

Only one adjustment entry is necessary based on the difference between the total old and new billings (all amounts should be checked for accuracy prior to the calculation to ensure that the adjustment accounts for the effects of all changes to Rent occasioned by the remeasurement, including operating costs, joint use and security charges).

The rates will not have to be re-blended if there is a future expansion to an assignment. While operating expense escalations in the intervening year or increases in rates due to CBR expirations could apply to the changed square footage, the resulting difference in Rent will not be large enough to warrant changing the billing adjustment (unless challenged by the tenant). No future changes to the adjustment entry will be necessary, unless space is canceled. In the event of agency relinquishment of space, if the value of the space being canceled exceeds the value of the adjustment, then the adjustment should be canceled. Customer agencies will receive one standing adjustment per assignment for their records, instead of multiple rate changes, which could change again if the assignment expands An itemized entry for the adjustment will appear on each client's bill.

The sufficient-time-to-budget policy governs measurement efforts that both increase and decrease Rent, irrespective of whether PBS or the customer agency initiates the re-measurement effort. Just as PBS must allow the customer agency sufficient time to include the increase in their budget cycle (six-18 months depending on the time of notification and what stage the budget cycle is in) so too, decreases in Rent must also wait out the next full budget year so that PBS can plan for the reduced income. This follows a principle of parity, for it would not be equitable for PBS immediately to credit Rent reductions for customer agencies due to re-measurement, but have to wait a budget cycle to increase Rent. This principle applies whether PBS re-measures the space, or whether the customer agency takes the initiative to have its space re-measured.

6. **Do we receive a new OA every year when operating costs change?** *No*

   Refer to Chapter 2, Section 2.1.7, amending an OA (p.9), Pricing desk Guide. Occupancy Agreements to not have to be amended for annual escalations in any of the following categories:
   - *Operating Expenses*
   - *Real Estate Taxes*
   - *Parking Charges*
   - *Basic Security Charge*
   - *Building-Specific security operating expenses which do not entail a change in service level*
   - *Building-Specific amortized capital expenditures which constitute the periodic recurring expense associated with equipment replacement*

7. **Is there still a hierarchy of space in Federally owned buildings? If an agency tries to force us to move and we say no who makes the final decision? GSA? Or do the two agencies involved try to "negotiate" a deal?**

   No hierarchy is mandated in the Pricing Desk Guide. PBS should coordinate with both agencies to reach a mutually acceptable agreement.

8. **We have heard that GSA is getting out of the REntESt business is this true?** *No*

9. **If real estate tax escalation's don't get processed until the next fiscal year, do we still get charged?**

   Yes. There are currently discussions regarding how to best incorporate real estate tax escalation costs into the rent estimate so as to lessen the effect of spikes in the rent for agencies. I will keep you posted.

10. **How do you appeal a rent rate?**

Refer to Chapter 6, Section 6.3 , Rent Appeals, P68

Rent Appeals

PBS anticipates that the use of an OA at the start of all space assignments will substantially reduce the conditions that give rise to Rent appeals. Nonetheless, agencies have both an informal and formal process to appeal Rents or challenge assignment elements (building-level classifications, space measurement, building-specific security charges, service levels) that have bearing upon Rent numbers.

Informal Process

Customer agency requests that a PBS regional office review and/or explain the basis of a Rent charge for a specific space assignment.

Formal Process

Customer agency directs a written appeal, with supporting documentation, for a specific space assignment to the appropriate Regional Administrator.

Appeals are governed by the following conditions:

Rates to which an agency agreed in an OA cannot be appealed.

Leased Space. Underlying lease contract cannot be appealed. Additional services outside the lease, procured by PBS and passed through to the customer agency, such as utility charges or custodial services, also cannot be appealed.

Federally Owned Space. Appeals of shell Rents are valid only if the shell Rent assessed by PBS exceeds the comparable commercial square foot rate by at least 20 percent. It is the customer agency's responsibility to provide evidence from at least three comparable locations, demonstrating that the market value differs from the assessed charge. These comparable locations must be for space in similar sized blocks and for transactions completed at a similar point in time to the shell rent determination.

The Regional Administrator decides on the merits of the appeal and notifies the client agency in writing. Customer agency headquarters-level officials have the right to appeal this decision to the PBS Commissioner. If the agency is denied at this level, customer agency head may further appeal the case to the Administrator. Decisions by the Administrator are final.

11. **Is the STAR billing system being revamped?**

    There have been discussions to change the current bill to a two page, two-sided bill to add comments to explain billing adjustments however no final determination has been made.

12. **When should we expect to have OAs for all of our assignments?**

    By the end of FY04.

13. NOAA has a real property management system that receives an electronic download of the monthly GSA rent bills. We have been requesting that additional information be included in these files to assist us in managing our GSA portfolio. The additional information we've requested are control totals: total number of records and total dollar amount in file, R/U factor, OA or lease expiration date, GSA contact information, etc. We've been unsuccessful in acquiring this information and don't understand why we're being ignored.

I still don't have an answer to this question. I will get back to you on this one.